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THE END OF LAISSEZ-FAIRE

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J. M. K.

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THE END OF LAISSEZ-FAIRE

I

THE disposition towards public affairs, which we conveniently sum up as Individualism and *laissez-faire*, drew its sustenance from many different rivulets of thought and springs of feeling. For more than a hundred years our philosophers ruled us, because, by a miracle, they nearly all agreed, or seemed to agree, on this one thing. We do not dance even yet to a new tune. But a change is in the air. We hear but indistinctly what were once the clearest and most distinguishable voices which have ever instructed political mankind. The orchestra of diverse instruments, the chorus of articulate sound, is receding at last into the distance.

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THE END OF LAISSEZ-FAIRE

At the end of the seventeenth century the divine right of monarchs gave place to Natural Liberty and to the Compact, and the divine right of the Church to the principle of Toleration, and to the view that a church is "a voluntary society of men," [1] coming together, in a way which is "absolutely free and spontaneous." [1] Fifty years later the divine origin and absolute voice of duty gave place to the calculations of Utility. In the hands of Locke and Hume these doctrines founded Individualism. The Compact presumed rights in the individual; the new ethics, being no more than a scientific study of the consequences of rational self-love, placed the individual at the centre. "The sole trouble Virtue demands," said Hume, "is that of just Calculation, and a steady preference of the greater Happiness." [2] These ideas accorded with the practical notions of conservatives and of lawyers. They furnished a satisfactory

[1] Locke, *A Letter Concerning Toleration.*

[2] *An Enquiry Concerning the Principles of Morals*, section lx.

intellectual foundation to the rights of property and to the liberty of the individual in possession to do what he liked with himself and with his own. This was one of the contributions of the eighteenth century to the air we still breathe.

The purpose of promoting the Individual was to depose the Monarch and the Church; the effect—through the new ethical significance attributed to Contract—was to buttress Property and Prescription. But it was not long before the claims of Society raised themselves anew against the individual. Paley and Bentham accepted utilitarian hedonism [1] from the hands of Hume and his predecessors, but enlarged it into social utility. Rousseau took the Social Contract from Locke and drew out

[1] "I omit," says Archdeacon Paley, "much usual declamation upon the dignity and capacity of our nature, the superiority of the soul to the body, of the rational to the animal part of our constitution; upon the worthiness, refinement, and delicacy of some satisfactions, and the meanness, grossness, and sensuality of others: because I hold that pleasures differ in nothing but in continuance and intensity."—*Principles of Moral and Political Philosophy*, Bk. I, chap. 6.

of it the General Will. In each case the transition was made by virtue of the new emphasis laid on Equality. " Locke applies his Social Contract to modify the natural equality of mankind, so far as that phrase implies equality of property or even of privilege, in consideration of general security. In Rousseau's version equality is not only the starting-point but the goal." [1]

Paley and Bentham reached the same destination, but by different routes. Paley avoided an egoistic conclusion to his hedonism by a God from the machine. "Virtue," he says, "is the doing good to mankind, in obedience to the will of God, and for the sake of everlasting happiness"—in this way bringing back *I* and *others* to a parity. Bentham reached the same result by pure reason. There is no rational ground, he argued, for preferring the happiness of one individual, even oneself, to that of any other. Hence the greatest happiness of the

[1] Leslie Stephen, *English Thought in Eighteenth Century*, ii, 192.

greatest number is the sole rational object of conduct—taking Utility from Hume, but forgetting that sage man's cynical corollary : "'Tis not contrary to reason to prefer the destruction of the whole world to the scratching of my finger. 'Tis not contrary to reason for me to choose my total ruin to prevent the least uneasiness of an Indian, or person totally unknown to me. . . . Reason is and ought only to be the slave of the passions, and can never pretend to any other office than to serve and obey them."

Rousseau derived equality from the State of Nature, Paley from the Will of God, Bentham from a mathematical law of Indifference. Equality and altruism had thus entered political philosophy, and from Rousseau and Bentham in conjunction sprang both Democracy and Utilitarian Socialism.

This is the second current—sprung from long-dead controversies, and carried on its way by long-exploded sophistries—which still permeates our atmosphere of thought. But it did not drive out the former current. It

mixed with it. The early nineteenth century performed the miraculous union. It harmonised the conservative individualism of Locke, Hume, Johnson, and Burke with the Socialism and democratic egalitarianism of Rousseau, Paley, Bentham, and Godwin.[1]

Nevertheless that age would have been hard put to it to achieve this harmony of opposites if it had not been for the *Economists*, who sprang into prominence just at the right moment. The idea of a divine harmony between private advantage and the public good is already apparent in Paley. But it was the Economists who gave the notion a good scientific basis. Suppose that by the working of natural laws individuals pursuing their own interests with enlightenment in conditions of

[1] Godwin carried *laissez-faire* so far that he thought *all* government an evil, in which Bentham almost agreed with him. The doctrine of equality becomes with him one of extreme individualism, verging on anarchy. "The universal exercise of private judgment," he says, "is a doctrine so unspeakably beautiful that the true politician will certainly feel infinite reluctance in admitting the idea of interfering with it".—*Vide* Leslie Stephen, *op. cit.*, ii, 277.

freedom always tend to promote the general interest at the same time! Our philosophical difficulties are resolved—at least for the practical man, who can then concentrate his efforts on securing the necessary conditions of freedom. To the philosophical doctrine that Government has no right to interfere, and the divine miracle that it has no need to interfere, there is added a scientific proof that its interference is inexpedient. This is the third current of thought, just discoverable in Adam Smith, who was ready in the main to allow the public good to rest on "the natural effort of every individual to better his own condition," but not fully and self-consciously developed until the nineteenth century begins. The principle of *laissez-faire* had arrived to harmonise Individualism and Socialism, and to make at one Hume's Egoism with the Greatest Good of the Greatest Number. The political philosopher could retire in favour of the business man—for the latter could attain the philosopher's *summum bonum* by just pursuing his own private profit.

Yet some other ingredients were needed to complete the pudding. First the corruption and incompetence of eighteenth-century government, many legacies of which survived into the nineteenth. The Individualism of the political philosophers pointed to *laissez-faire*. The divine or scientific harmony (as the case might be) between private interest and public advantage pointed to *laissez-faire*. But above all, the ineptitude of public administrators strongly prejudiced the practical man in favour of *laissez-faire*—a sentiment which has by no means disappeared. Almost everything which the State did in the eighteenth century in excess of its minimum functions was, or seemed, injurious or unsuccessful.

On the other hand, material progress between 1750 and 1850 came from individual initiative, and owed almost nothing to the directive influence of organised society as a whole. Thus practical experience reinforced *a priori* reasonings. The philosophers and the economists told us that for sundry deep reasons unfettered private enterprise would

promote the greatest good of the whole. What could suit the business man better? And could a practical observer, looking about him, deny that the blessings of improvement which distinguished the age he lived in were traceable to the activities of individuals "on the make"? Thus the ground was fertile for a doctrine that, whether on divine, natural, or scientific grounds, State Action should be narrowly confined and economic life left, unregulated so far as may be, to the skill and good sense of individual citizens actuated by the admirable motive of trying to get on in the world.

By the time that the influence of Paley and his like was waning, the innovations of Darwin were shaking the foundations of belief. Nothing could seem more opposed than the old doctrine and the new—the doctrine which looked on the world as the work of the divine Watchmaker and the doctrine which seemed to draw all things out of Chance, Chaos, and Old Time. But at this one point the new ideas bolstered up the old. The Economists were teaching that wealth,

commerce, and machinery were the children of free competition—that free competition built London. But the Darwinians could go one better than that—free competition had built Man. The human eye was no longer the demonstration of Design, miraculously contriving all things for the best; it was the supreme achievement of Chance, operating under conditions of free competition and *laissez-faire*. The principle of the Survival of the Fittest could be regarded as a vast generalisation of the Ricardian economics. Socialistic interferences became, in the light of this grander synthesis, not merely inexpedient, but impious, as calculated to retard the onward movement of the mighty process by which we ourselves had risen like Aphrodite out of the primeval slime of Ocean.

Therefore I trace the peculiar unity of the everyday political philosophy of the nineteenth century to the success with which it harmonised diversified and warring schools and united all good things to a single end. Hume and Paley, Burke and Rousseau, Godwin and

Malthus, Cobbett and Huskisson, Bentham and Coleridge, Darwin and the Bishop of Oxford, were all, it was discovered, preaching practically the same thing—Individualism and *laissez-faire*. This was the Church of England and those her apostles, whilst the company of the economists were there to prove that the least deviation into impiety involved financial ruin.

These reasons and this atmosphere are the explanations, whether we know it or not—and most of us in these degenerate days are largely ignorant in the matter—why we feel such a strong bias in favour of *laissez-faire*, and why State action to regulate the value of money, or the course of investment, or the population, provoke such passionate suspicions in many upright breasts. We have not read these authors; we should consider their arguments preposterous if they were to fall into our hands. Nevertheless we should not, I fancy, think as we do, if Hobbes, Locke, Hume, Rousseau, Paley, Adam Smith, Bentham, and Miss Martineau had not thought

and written as they did. A study of the history of opinion is a necessary preliminary to the emancipation of the mind. I do not know which makes a man more conservative —to know nothing but the present, or nothing but the past.

II

I have said that it was the economists who furnished the scientific pretext by which the practical man could solve the contradiction between egoism and socialism which emerged out of the philosophising of the eighteenth century and the decay of revealed religion. But having said this for shortness' sake, I hasten to qualify it. This is what the economists are *supposed* to have said. No such doctrine is really to be found in the writings of the greatest authorities. It is what the popularisers and the vulgarisers said. It is what the Utilitarians, who admitted Hume's egoism and Bentham's egalitarianism at the same time, were *driven* to believe in, if they were to effect a synthesis.[1] The language of

[1] One can sympathise with the view of Coleridge, as summarised by Leslie Stephen, that "the Utilitarians destroyed every element of cohesion, made Society a struggle of selfish interests, and struck at the very roots of all order, patriotism, poetry, and religion."

the economists lent itself to the *laissez-faire* interpretation. But the popularity of the doctrine must be laid at the door of the political philosophers of the day, whom it happened to suit, rather than of the political economists.

The maxim *laissez-nous faire* is traditionally attributed to the merchant Legendre addressing Colbert sometime towards the end of the seventeenth century.[1] But there is no doubt that the first writer to use the phrase, and to use it in clear association with the doctrine, is the Marquis d'Argenson about 1751.[2] The Marquis was the first man to wax passionate on the economic advantages of Governments

[1] " Que faut-il faire pour vous aider ? " asked Colbert. " Nous laisser faire," answered Legendre.

[2] For the history of the phrase, *vide* Oncken, " Die Maxime Laissez-faire et laissez passer," from whom most of the following quotations are taken. The claims of the Marquis d'Argenson were overlooked until Oncken put them forward, partly because the relevant passages published during his lifetime were anonymous (*Journal Œconomique*, 1751), and partly because his works were not published in full (though probably passed privately from hand to hand during his lifetime) until 1858 (*Mémoires et Journal inédit du Marquis d'Argenson*).

leaving trade alone. To govern better, he said, one must govern less.[1] The true cause of the decline of our manufactures, he declared, is the protection we have given to them.[2] "Laissez faire, telle devrait être la devise de toute puissance publique, depuis que le monde est civilisé." "Detestable principe que celui de ne vouloir notre grandeur que par l'abaissement de nos voisins! Il n'y a que la méchanceté et la malignité du cœur de satisfaites dans ce principe, et l'intérêt y est opposé. Laissez faire, morbleu! Laissez faire!!"

Here we have the economic doctrine of *laissez-faire*, with its most fervent expression in Free Trade, fully clothed. The phrases and the idea must have passed current in Paris from that time on. But they were slow to establish themselves in Literature; and the tradition associating with them the Physiocrats, and particularly de Gournay and

[1] "Pour gouverner mieux, il faudrait gouverner moins."

[2] "On ne peut dire autant de nos fabriques : la vraie cause de leur declin, c'est la protection outrée qu'on leur accorde."

Quesnay, finds little support in the writings of this school, though they were, of course, proponents of the essential harmony of social and individual interests. The phrase *laissez-faire* is not to be found in the works of Adam Smith, of Ricardo, or of Malthus. Even the idea is not present in a dogmatic form in any of these authors. Adam Smith, of course, was a Free Trader and an opponent of many eighteenth-century restrictions on trade. But his attitude towards the Navigation Acts and the Usury laws shows that he was not dogmatic. Even his famous passage about "the invisible hand" reflects the philosophy which we associate with Paley rather than the economic dogma of *laissez-faire*. As Sidgwick and Cliff Leslie have pointed out, Adam Smith's advocacy of the "obvious and simple system of natural liberty" is derived from his theistic and optimistic view of the order of the world, as set forth in his *Theory of Moral Sentiments*, rather than from any proposition of Political Economy proper.[1] The phrase

[1] Sidgwick, *Principles of Political Economy*, p. 20.

THE END OF LAISSEZ-FAIRE

laissez-faire was, I think, first brought into popular usage in England by a well-known passage of Dr Franklin's.[1] It is not, indeed, until we come to the later works of Bentham —who was not an economist at all—that we discover the rule of *laissez-faire*, in the shape in which our grandfathers knew it, adopted into the service of the Utilitarian philosophy. For example, in *A Manual of Political Economy*,[2] he writes: "The general rule is that nothing ought to be done or attempted by government; the motto or watchword of government, on these occasions, ought to be—*Be quiet*. . . . The request which agriculture, manufacturers, and commerce present to governments is as modest and reasonable as that which Diogenes made to Alexander: Stand out of my sunshine."

From this time on it was the political campaign for Free Trade, the influence of the

[1] Bentham uses the expression "*laissez-nous faire*," *Works*, p. 440.

[2] Written in 1793, a chapter published in the *Bibliothèque Britannique* in 1798, and the whole first printed in Bowring's edition of his *Works* (1843).

so-called Manchester School and of the Benthamite Utilitarians, the utterances of secondary economic authorities, and the educational stories of Miss Martineau and Mrs Marcet, that fixed *laissez-faire* in the popular mind as the practical conclusion of orthodox Political Economy—with this great difference, that the Malthusian view of Population having been accepted in the meantime by this same school of thought, the optimistic *laissez-faire* of the last half of the eighteenth century gives place to the pessimistic *laissez-faire* of the first half of the nineteenth century.[1]

In Mrs Marcet's *Conversations on Political Economy* (1817) Caroline stands out as long as she can in favour of controlling the expenditure

[1] *Cf.* Sidgwick (*op. cit.*, p. 22): "Even those economists, who adhered in the main to Adam Smith's limitations of the sphere of government, enforced these limitations sadly rather than triumphantly; not as admirers of the social order at present resulting from 'natural liberty,' but as convinced that it is at least preferable to any artificial order that government might be able to substitute for it."

of the rich. But by page 418 she has to admit defeat:

"*Caroline.*—The more I learn upon this subject, the more I feel convinced that the interests of nations, as well as those of individuals, so far from being opposed to each other, are in the most perfect unison.

"*Mrs B.*—Liberal and enlarged views will always lead to similar conclusions, and teach us to cherish sentiments of universal benevolence towards each other ; hence the superiority of science over mere practical knowledge."

By 1850 the *Easy Lessons for the Use of Young People*, by Archbishop Whately, which the Society for Promoting Christian Knowledge was distributing wholesale, do not admit even of those doubts which Mrs B. allowed Caroline occasionally to entertain. "More harm than good is likely to be done," the little book concludes, "by almost any interference of Government with men's money transactions, whether letting and leasing, or buying and selling of any kind." *True* liberty

is "that every man should be left free to dispose of his own property, his own time, and strength, and skill, in whatever way he himself may think fit, provided he does no wrong to his neighbours."

In short, the dogma had got hold of the educational machine; it had become a copy-book maxim. The Political Philosophy, which the seventeenth and eighteenth centuries had forged in order to throw down Kings and Prelates, had been made milk for babes, and had literally entered the nursery.

Finally, in the works of Bastiat we reach the most extravagant and rhapsodical expression of the Political Economist's religion. In his *Harmonies Economiques*, "I undertake," he says, "to demonstrate the Harmony of those laws of Providence which govern human society. What makes these laws harmonious and not discordant is, that all principles, all motives, all springs of action, all interests, co-operate towards a grand final result. . . . And that result is, the indefinite approximation of all classes towards a level, which is always

rising; in other words, the *equalisation* of individuals in the general *amelioration*." And when, like other priests, he drafts his *Credo*, it runs as follows: "I believe that He who has arranged the material universe has not withheld His regard from the arrangements of the social world. I believe that He has combined and caused to move in harmony free agents as well as inert molecules. . . . I believe that the invincible social tendency is a constant approximation of men towards a common moral, intellectual, and physical level, with, at the same time, a progressive and indefinite elevation of that level. I believe that all that is necessary to the gradual and peaceful development of humanity is that its tendencies should not be disturbed, nor have the liberty of their movements destroyed."

From the time of John Stuart Mill, economists of authority have been in strong reaction against all such ideas. "Scarcely a single English economist of repute," as Professor

Cannan has expressed it, "will join in a frontal attack upon Socialism in general," though, as he also adds, "nearly every economist, whether of repute or not, is always ready to pick holes in most socialistic proposals." [1] Economists no longer have any link with the theological or political philosophies out of which the dogma of Social Harmony was born, and their scientific analysis leads them to no such conclusions.

Cairnes, in the Introductory Lecture on "Political Economy and *Laissez-Faire*," which he delivered at University College, London, in 1870, was perhaps the first orthodox economist to deliver a frontal attack upon *laissez-faire* in general. "The maxim of *laissez-faire*," he declared, "has no scientific basis whatever, but is at best a mere handy rule of practice." [2] This, for fifty years past,

[1] *Theories of Production and Distribution*, p. 494.

[2] Cairnes well described the "prevailing notion" in the following passage from the same lecture: "The prevailing notion is that P.E. undertakes to show that wealth may be most rapidly accumulated and most fairly distributed; that is to say, that human well-being

has been the view of all leading economists. Some of the most important work of Alfred Marshall—to take one instance—was directed to the elucidation of the leading cases in which private interest and social interest are *not* harmonious. Nevertheless the guarded and undogmatic attitude of the best economists has not prevailed against the general opinion that an individualistic *laissez-faire* is both what they ought to teach and what in fact they do teach.

may be most effectually promoted, by the simple process of leaving people to themselves; leaving individuals, that is to say, to follow the promptings of self-interest, unrestrained either by the State or by public opinion, so long as they abstain from force and fraud. This is the doctrine commonly known as *laissez-faire;* and accordingly political economy is, I think, very generally regarded as a sort of scientific rendering of this maxim—a vindication of freedom of individual enterprise and of contract as the one and sufficient solution of all industrial problems."

III

Economists, like other scientists, have chosen the hypothesis from which they set out, and which they offer to beginners, because it is the simplest, and not because it is the nearest to the facts. Partly for this reason, but partly, I admit, because they have been biassed by the traditions of the subject, they have begun by assuming a state of affairs where the ideal distribution of productive resources can be brought about through individuals acting independently by the method of trial and error in such a way that those individuals who move in the right direction will destroy by competition those who move in the wrong direction. This implies that there must be no mercy or protection for those who embark their capital or their labour in the wrong direction. It is a method of bringing the most successful profit-makers to the top by a ruthless struggle for survival,

which selects the most efficient by the bankruptcy of the less efficient. It does not count the cost of the struggle, but looks only to the benefits of the final result which are assumed to be permanent. The object of life being to crop the leaves off the branches up to the greatest possible height, the likeliest way of achieving this end is to leave the giraffes with the longest necks to starve out those whose necks are shorter.

Corresponding to this method of attaining the ideal distribution of the instruments of production between different purposes, there is a similar assumption as to how to attain the ideal distribution of what is available for consumption. In the first place, each individual will discover what amongst the possible objects of consumption *he* wants most by the method of trial and error "at the margin," and in this way not only will each consumer come to distribute his consumption most advantageously, but each object of consumption will find its way into the mouth of the consumer whose relish for it is greatest

compared with that of the others, because that consumer will outbid the rest. Thus, if only we leave the giraffes to themselves, (1) the maximum quantity of leaves will be cropped because the giraffes with the longest necks will, by dint of starving out the others, get nearest to the trees; (2) each giraffe will make for the leaves which he finds most succulent amongst those in reach; and (3) the giraffes whose relish for a given leaf is greatest will crane most to reach it. In this way more and juicier leaves will be swallowed, and each individual leaf will reach the throat which thinks it deserves most effort.

This assumption, however, of conditions where unhindered natural selection leads to progress, is only one of the two provisional assumptions which, taken as literal truth, have become the twin buttresses of *laissez-faire*. The other one is the efficacy, and, indeed, the necessity, of the opportunity for unlimited private money-making as an *incentive* to maximum effort. Profit accrues, under *laissez-faire*, to the individual who,

whether by skill or good fortune, is found with his productive resources in the right place at the right time. A system which allows the skilful or fortunate individual to reap the whole fruits of this conjuncture evidently offers an immense incentive to the practice of the art of being in the right place at the right time. Thus one of the most powerful of human motives, namely, the love of money, is harnessed to the task of distributing economic resources in the way best calculated to increase wealth.

The parallelism between economic *laissez-faire* and Darwinianism, already briefly noted, is now seen, as Herbert Spencer was foremost to recognise, to be very close indeed. Just as Darwin invoked sexual love, acting through sexual selection, as an adjutant to Natural Selection by competition, to direct evolution along lines which should be desirable as well as effective, so the individualist invokes the love of money, acting through the pursuit of profit, as an adjutant to Natural Selection, to bring about the production on the greatest

possible scale of what is most strongly desired as measured by exchange value.

The beauty and the simplicity of such a theory are so great that it is easy to forget that it follows not from the actual facts, but from an incomplete hypothesis introduced for the sake of simplicity. Apart from other objections to be mentioned later, the conclusion that individuals acting independently for their own advantage will produce the greatest aggregate of wealth, depends on a variety of unreal assumptions to the effect that the processes of production and consumption are in no way organic, that there exists a sufficient foreknowledge of conditions and requirements, and that there are adequate opportunities of obtaining this foreknowledge. For economists generally reserve for a later stage of their argument the complications which arise —(1) when the efficient units of production are large relatively to the units of consumption, (2) when overhead costs or joint costs are present, (3) when internal economies tend to the aggregation of production, (4) when the

time required for adjustments is long, (5) when ignorance prevails over knowledge, and (6) when monopolies and combinations interfere with equality in bargaining—they reserve, that is to say, for a later stage their analysis of the actual facts. Moreover, many of those who recognise that the simplified hypothesis does not accurately correspond to fact conclude nevertheless that it does represent what is "natural" and therefore ideal. They regard the simplified hypothesis as health, and the further complications as disease.

Yet, besides this question of fact, there are other considerations, familiar enough, which rightly bring into the calculation the cost and character of the competitive struggle itself, and the tendency for wealth to be distributed where it is not appreciated most. If we have the welfare of the giraffes at heart, we must not overlook the sufferings of the shorter necks who are starved out, or the sweet leaves which fall to the ground and are trampled underfoot in the struggle, or the overfeeding of the long-necked ones, or the evil look of

anxiety or struggling greediness which overcasts the mild faces of the herd.

But the principles of *laissez-faire* have had other allies besides economic text-books. It must be admitted that they have been confirmed in the minds of sound thinkers and the reasonable public by the poor quality of the opponent proposals—Protectionism on one hand, and Marxian Socialism on the other. Yet these doctrines are both characterised, not only or chiefly by their infringing the general presumption in favour of *laissez-faire*, but by mere logical fallacy. Both are examples of poor thinking, of inability to analyse a process and follow it out to its conclusion. The arguments against them, though reinforced by the principle of *laissez-faire*, do not strictly require it. Of the two, Protectionism is at least plausible, and the forces making for its popularity are nothing to wonder at. But Marxian Socialism must always remain a portent to the historians of Opinion—how a doctrine so illogical and so dull can have exercised so powerful and enduring an in-

fluence over the minds of men, and, through them, the events of history. At any rate, the obvious scientific deficiencies of these two schools greatly contributed to the prestige and authority of nineteenth-century *laissez-faire*.

Nor has the most notable divergence into centralised social action on a great scale—the conduct of the late war—encouraged reformers or dispelled old-fashioned prejudices. There is much to be said, it is true, on both sides. War experience in the organisation of socialised production has left some near observers optimistically anxious to repeat it in peace conditions. War socialism unquestionably achieved a production of wealth on a scale far greater than we ever knew in Peace, for though the goods and services delivered were destined for immediate and fruitless extinction, none the less they were wealth. Nevertheless the dissipation of effort was also prodigious, and the atmosphere of waste and not counting the cost was disgusting to any thrifty or provident spirit.

Finally, Individualism and *laissez-faire* could not, in spite of their deep roots in the political and moral philosophies of the late eighteenth and early nineteenth centuries, have secured their lasting hold over the conduct of public affairs, if it had not been for their conformity with the needs and wishes of the business world of the day. They gave full scope to our erstwhile heroes, the great business men. "At least one-half of the best ability in the Western world," Marshall used to say, "is engaged in business." A great part of "the higher imagination" of the age was thus employed. It was on the activities of these men that our hopes of Progress were centred. "Men of this class," Marshall wrote,[1] "live in constantly shifting visions, fashioned in their own brains, of various routes to their desired end; of the difficulties which Nature will oppose to them on each route, and of the contrivances by which they hope to get the better of her opposition. This imagination

[1] "The Social Possibilities of Economic Chivalry," *Economic Journal* (1907), xvii, p. 9.

gains little credit with the people, because it is not allowed to run riot; its strength is disciplined by a stronger will; and its highest glory is to have attained great ends by means so simple that no one will know, and none but experts will even guess, how a dozen other expedients, each suggesting as much brilliancy to the hasty observer, were set aside in favour of it. The imagination of such a man is employed, like that of the master chess-player, in forecasting the obstacles which may be opposed to the successful issue of his far-reaching projects, and constantly rejecting brilliant suggestions because he has pictured to himself the counter-strokes to them. His strong nervous force is at the opposite extreme of human nature from that nervous irresponsibility which conceives hasty Utopian schemes, and which is rather to be compared to the bold facility of a weak player, who will speedily solve the most difficult chess problem by taking on himself to move the black men as well as the white."

This is a fine picture of the great Captain of Industry, the Master-Individualist, who serves us in serving himself, just as any other artist does. Yet this one, in his turn, is becoming a tarnished idol. We grow more doubtful whether it is he who will lead us into Paradise by the hand.

These many elements have contributed to the current intellectual bias, the mental make-up, the orthodoxy of the day. The compelling force of many of the original reasons has disappeared, but, as usual, the vitality of the conclusions outlasts them. To suggest social action for the public good to the City of London is like discussing the *Origin of Species* with a Bishop sixty years ago. The first reaction is not intellectual, but moral. An orthodoxy is in question, and the more persuasive the arguments the graver the offence. Nevertheless, venturing into the den of the lethargic monster, at any rate I have traced his claims and pedigree so as to show that he has ruled over us rather by hereditary right than by personal merit.

IV

Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive "natural liberty" in their economic activities. There is *no* "compact" conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social

unit, are always less clear-sighted than when they act separately.

We cannot therefore settle on abstract grounds, but must handle on its merits in detail what Burke termed "one of the finest problems in legislation, namely, to determine what the State ought to take upon itself to direct by the public wisdom, and what it ought to leave, with as little interference as possible, to individual exertion." [1] We have to discriminate between what Bentham, in his forgotten but useful nomenclature, used to term *Agenda* and *Non-Agenda*, and to do this without Bentham's prior presumption that interference is, at the same time, "generally needless" and "generally pernicious." [2] Perhaps the chief task of Economists at this hour is to distinguish afresh the *Agenda* of Government from the *Non-Agenda*; and the companion task of Politics is to devise forms

[1] Quoted by M'Culloch in his *Principles of Political Economy*.

[2] Bentham's *Manual of Political Economy*, published posthumously, in Bowring's edition (1843).

of Government within a Democracy which shall be capable of accomplishing the *Agenda*. I will illustrate what I have in mind by two examples.

(1) I believe that in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and the modern State. I suggest, therefore, that progress lies in the growth and the recognition of semi-autonomous bodies within the State—bodies whose criterion of action within their own field is solely the public good as they understand it, and from whose deliberations motives of private advantage are excluded, though some place it may still be necessary to leave, until the ambit of men's altruism grows wider, to the separate advantage of particular groups, classes, or faculties—bodies which in the ordinary course of affairs are mainly autonomous within their prescribed limitations, but are subject in the last resort to the sovereignty of the democracy expressed through Parliament.

I propose a return, it may be said, towards

mediæval conceptions of separate autonomies. But, in England at any rate, corporations are a mode of government which has never ceased to be important and is sympathetic to our institutions. It is easy to give examples, from what already exists, of separate autonomies which have attained or are approaching the mode I designate—the Universities, the Bank of England, the Port of London Authority, even perhaps the Railway Companies. In Germany there are doubtless analogous instances.

But more interesting than these is the trend of Joint Stock Institutions, when they have reached a certain age and size, to approximate to the status of public corporations rather than that of individualistic private enterprise. One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialise itself. A point arrives in the growth of a big institution—particularly a big railway or big public utility enterprise, but also a big bank or a big insurance company—at which

the owners of the capital, *i.e.* the shareholders, are almost entirely dissociated from the management, with the result that the direct personal interest of the latter in the making of great profit becomes quite secondary. When this stage is reached, the general stability and reputation of the institution are more considered by the management than the maximum of profit for the shareholders. The shareholders must be satisfied by conventionally adequate dividends; but once this is secured, the direct interest of the management often consists in avoiding criticism from the public and from the customers of the concern. This is particularly the case if their great size or semi-monopolistic position renders them conspicuous in the public eye and vulnerable to public attack. The extreme instance, perhaps, of this tendency in the case of an institution, theoretically the unrestricted property of private persons, is the Bank of England. It is almost true to say that there is no class of persons in the Kingdom of whom the Governor of the Bank of England thinks

less when he decides on his policy than of his shareholders. Their rights, in excess of their conventional dividend, have already sunk to the neighbourhood of zero. But the same thing is partly true of many other big institutions. They are, as time goes on, socialising themselves.

Not that this is unmixed gain. The same causes promote conservatism and a waning of enterprise. In fact, we already have in these cases many of the faults as well as the advantages of State Socialism. Nevertheless we see here, I think, a natural line of evolution. The battle of Socialism against unlimited private profit is being won in detail hour by hour. In these particular fields—it remains acute elsewhere—this is no longer the pressing problem. There is, for instance, no so-called important political question so really unimportant, so irrelevant to the re-organisation of the economic life of Great Britain, as the Nationalisation of the Railways.

It is true that many big undertakings, particularly Public Utility enterprises and

other business requiring a large fixed capital, still need to be semi-socialised. But we must keep our minds flexible regarding the forms of this semi-socialism. We must take full advantage of the natural tendencies of the day, and we must probably prefer semi-autonomous corporations to organs of the Central Government for which Ministers of State are directly responsible.

I criticise doctrinaire State Socialism, not because it seeks to engage men's altruistic impulses in the service of Society, or because it departs from *laissez-faire*, or because it takes away from man's natural liberty to make a million, or because it has courage for bold experiments. All these things I applaud. I criticise it because it misses the significance of what is actually happening; because it is, in fact, little better than a dusty survival of a plan to meet the problems of fifty years ago, based on a misunderstanding of what someone said a hundred years ago. Nineteenth-century State Socialism sprang from Bentham, free competition, etc., and is in some respects a

clearer, in some respects a more muddled version of just the same philosophy as underlies nineteenth-century individualism. Both equally laid all their stress on freedom, the one negatively to avoid limitations on existing freedom, the other positively to destroy natural or acquired monopolies. They are different reactions to the same intellectual atmosphere.

(2) I come next to a criterion of *Agenda* which is particularly relevant to what it is urgent and desirable to do in the near future. We must aim at separating those services which are *technically social* from those which are *technically individual*. The most important *Agenda* of the State relate not to those activities which private individuals are already fulfilling, but to those functions which fall outside the sphere of the individual, to those decisions which are made by *no one* if the State does not make them. The important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to

do those things which at present are not done at all.

It is not within the scope of my purpose on this occasion to develop practical policies. I limit myself, therefore, to naming some instances of what I mean from amongst those problems about which I happen to have thought most.

Many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals, fortunate in situation or in abilities, are able to take advantage of uncertainty and ignorance, and also because for the same reason big business is often a lottery, that great inequalities of wealth come about; and these same factors are also the cause of the Unemployment of Labour, or the disappointment of reasonable business expectations, and of the impairment of efficiency and production. Yet the cure lies outside the operations of individuals; it may even be to the interest of individuals to aggravate the disease. I believe that the cure for these things is partly

to be sought in the deliberate control of the currency and of credit by a central institution, and partly in the collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which it is useful to know. These measures would involve Society in exercising directive intelligence through some appropriate organ of action over many of the inner intricacies of private business, yet it would leave private initiative and enterprise unhindered. Even if these measures prove insufficient, nevertheless they will furnish us with better knowledge than we have now for taking the next step.

My second example relates to Savings and Investment. I believe that some co-ordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organisation of the investment market distributes savings along the

most nationally productive channels. I do not think that these matters should be left entirely to the chances of private judgment and private profits, as they are at present.

My third example concerns Population. The time has already come when each country needs a considered national policy about what size of Population, whether larger or smaller than at present or the same, is most expedient. And having settled this policy, we must take steps to carry it into operation. The time may arrive a little later when the community as a whole must pay attention to the innate quality as well as to the mere numbers of its future members.

V

These reflections have been directed towards possible improvements in the technique of modern Capitalism by the agency of collective action. There is nothing in them which is seriously incompatible with what seems to me to be the essential characteristic of Capitalism, namely the dependence upon an intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine. Nor must I, so near to my end, stray towards other fields. Nevertheless I may do well to remind you, in conclusion, that the fiercest contests and the most deeply felt divisions of opinion are likely to be waged in the coming years not round technical questions, where the arguments on either side are mainly economic, but round those which, for want of better words, may be called psychological or, perhaps, moral.

In Europe, or at least in some parts of Europe—but not, I think, in the United States of America—there is a latent reaction, somewhat widespread, against basing Society to the extent that we do upon fostering, encouraging, and protecting the money-motives of individuals. A preference for arranging our affairs in such a way as to appeal to the money-motive as little as possible, rather than as much as possible, need not be entirely *a priori*, but may be based on the comparison of experiences. Different persons, according to their choice of profession, find the money-motive playing a large or a small part in their daily lives, and historians can tell us about other phases of social organisation in which this motive has played a much smaller part than it does now. Most religions and most philosophies deprecate, to say the least of it, a way of life mainly influenced by considerations of personal money profit. On the other hand, most men to-day reject ascetic notions and do not doubt the real advantages of wealth. Moreover, it seems obvious to them

that one cannot do without the money-motive, and that, apart from certain admitted abuses, it does its job well. In the result the average man averts his attention from the problem, and has no clear idea what he really thinks and feels about the whole confounded matter.

Confusion of thought and feeling leads to confusion of speech. Many people, who are really objecting to Capitalism as a way of life, argue as though they were objecting to it on the ground of its inefficiency in attaining its own objects. Contrariwise, devotees of Capitalism are often unduly conservative, and reject reforms in its technique, which might really strengthen and preserve it, for fear that they may prove to be first steps away from Capitalism itself. Nevertheless a time may be coming when we shall get clearer than at present as to when we are talking about Capitalism as an efficient or inefficient technique, and when we are talking about it as desirable or objectionable in itself. For my part, I think that Capitalism, wisely managed, can probably be made more efficient for

attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life.

The next step forward must come, not from political agitation or premature experiments, but from thought. We need by an effort of the mind to elucidate our own feelings. At present our sympathy and our judgment are liable to be on different sides, which is a painful and paralysing state of mind. In the field of action reformers will not be successful until they can steadily pursue a clear and definite object with their intellects and their feelings in tune. There is no party in the world at present which appears to me to be pursuing right aims by right methods. Material Poverty provides the incentive to change precisely in situations where there is very little margin for experiments. Material Prosperity removes the incentive just when

it might be safe to take a chance. Europe lacks the means, America the will, to make a move. We need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts.

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